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TAGS: ECON EFIN EINV EPET MY
SUBJECT: Iran outdoes U.S. in FDI; Foreign Bank to Open in KL.
Malaysia Economic Update July 2007

¶1. (U) Summary: Malaysia's top investor for the first five months of 2007 is Iran, due to a joint venture by the National Iranian Oil Company (NIOC) and SKS Ventures Sdn. Bhd. to build a refinery in the northern region of peninsular Malaysia. The Central Bank approved another joint venture for Bank of Baroda and two other Indian banks, marking the first new foreign conventional bank to be approved in many years. Other developments include increased tourism, a flap over pricing of the new Harry Potter book, and a slightly increased forecast for economic growth. End Summary.

Malaysia's Top Investor Year-to-Date: IRAN

¶2. (U) Iran has emerged as the leading foreign investor in the country for the period January through May 2007, at least in terms of approved projects. Iran's new status is the result of a single large refinery in which the National Iranian Oil Company (NIOC) has a large stake. The refinery, which will be built in the northern state of Kedah, is a joint venture with Malaysian company SKS Development Sdn. Bhd., a sister-company to SKS Ventures which made press earlier this year when it announced plans to develop the Ferdows and Golshan gas fields in Iran. Both SKS Development and SKS Ventures are owned by Malaysian tycoon Syed Mokhtar al-Bukhari. The NIOC stake in the new refinery is reported to be less than 50%.

U.S. investment approvals drop to fifth place

¶3. (U) U.S. investment approvals are running in fifth place this year, after a decade or more of the U.S. being Malaysia's top foreign investor. According to the government investment approval agency, Malaysian Industrial Development Authority (MIDA), Iran's investment of USD 874 million, or 19% of total approved foreign investment, is ahead of Netherlands (USD 653 million), Japan (USD 518 million), Singapore (USD 378 million) and the U.S. (USD 299 million). Average monthly approvals are up slightly for investment from the U.S. and Japan and significantly for investment from the Netherlands and Singapore. Total approved foreign investments were USD 3.6 billion for the first five months of the year and USD 5.5 billion in 2006.

Comment

¶4. (SBU) It is too soon to tell whether the year-to-date project

approvals will lead to a significant increase in actual foreign direct investment. Comparing the YTD monthly average for January through May 2007 to the monthly average for 2006 shows a 57% increase. This is hardly realistic. It is more likely that, with national elections around the corner, the GOM is approving everything that comes across the desk in an effort to boost the figures. How many of these proposals ever break ground is yet to be seen. However, the one large refinery jointly financed by NIOC and SKS Ventures is expected to break ground within the next month or two.

Foreign Conventional Bank Approved

¶5. (U) According to the GOM's "Financial Sector Master Plan," developed in 2001, this year was supposed to be the year that the financial sector would be liberalized, after a series of government-imposed clampdowns in the beginning of the 2001-2010 period covered by the plan. A series of gradual liberalizations have been evident since January, and according to press reports, the GOM recently approved the application of a new foreign conventional bank - the first in many years. Bank of Baroda, India's fifth largest lender, has been granted approval to set up a joint venture with two other conventional Indian banks, Punjab National Bank and Andhra Bank, in early 2008. Bank of Baroda currently has a representative office in Kuala Lumpur which it opened in August ¶2004. Earlier press reports alluded to a long, complex series of negotiations between Malaysia's central bank and Bank of Baroda. This will be the first Indian bank permitted to open a branch in the country, albeit a year later than planned. (Note: as part of Malaysia's drive to become a global hub for Islamic finance, several Middle East-based Islamic banks opened their doors in Malaysia earlier this year.)

Visit Malaysia Year 2007 and 50th Independence Day Celebrations

¶6. (U) The Visit Malaysia Year 2007 tourism campaign was launched nationwide this year to celebrate Malaysia's 50 years of independence from the British, which culminates with the Merdeka National Day on August 31. Many activities and programs such as cultural performances and street shows have been lined up to promote Malaysia as a tourist destination both domestically and internationally.

¶7. (U) The tourism industry continues to see increasing arrivals and to contribute higher earnings to the Malaysian economy. A total of 17.55 million international tourists visited Malaysia in 2006 and this year Malaysia is targeting 20.1 million tourists who are expected to spend RM40.5 billion (approximately USD 11.8 billion). As of March this year, Malaysia recorded 1.7 million visitors, an increase of 10.9 percent compared to the same period last year. Tourists from elsewhere in Southeast Asia usually make up the bulk of arrivals to the country, including a large number of Singaporeans who come for day trips. Double digit growth was recorded for visitor arrivals from Singapore, Indonesia, China, Japan, Saudi Arabia, Canada, Australia, Russia and others. According to the Tourism Board website there has been a drop in arrivals from Thailand for the past three months caused by violence in southern Thailand.

New Approach to Promoting Tourism

¶8. (U) According to Zulkipli of Malaysia's Tourism Board, the government is "very interested" in attracting more tourists from the Middle East, North Africa and Russia, all of which are believed to have high growth potential and high average expenditure per tourist, though their tourists travel only in limited seasons. He noted that Middle Eastern tourists in particular are attracted to Malaysia for cultural, religious and dietary reasons, with the largest numbers of tourists coming during the summer. In addition, he surmised that many Arab tourists have avoided visiting the United States and

Western Europe, where they may face visa difficulties and could feel "less welcome."

¶9. (U) In the past, Malaysia marketed itself as a holiday destination, and is now promoting itself as a shopping haven in a move to increase the flow of tourists' receipts. The board is hoping to attract more U.S. tourists, which tend not to travel much to Malaysia given its great distance from the U.S. While in New York recently, the tourism board also aggressively promoted Malaysia's attractiveness for medical tourists and for the MICE (meetings, incentives, conferences and exhibitions) market.

Issues affecting tourism growth

¶10. (U) Malaysia's poor maintenance of public toilets, unscrupulous taxi drivers, the prevalence of itinerant beggars in tourist zones, and general lack of cleanliness have been hot issues for the government as it seeks to attract more tourists from abroad, according to tourism board officials. Last year the government installed high-tech toilets in several key shopping areas, and local authorities and the Housing and Local Government Ministry are pressuring restaurants and hotels to ensure that toilets are kept clean.

Hotels Try to Conserve Energy

¶11. (U) Econ FSN spoke with Shaha of the Hotel Association, who said he is optimistic that Malaysia will achieve the predicted number of tourists, provided no unforeseen global events such as a bird flu outbreak or a tsunami occurs. He said electricity is the second largest cost to hotels after salary, which is why his group has asked Malaysia's power company and the trade ministry (MITI) to provide appropriate incentives to ease the burden on hotels. The hotel industry is in operation 24 hours a day, and cannot adjust its operations to off-peak hours like the industrial and manufacturing sector. Hotels have made efforts to increase energy efficiency to mitigate the increased cost of power, according to Shaha, but older hotels have found this difficult. The hotel industry also has asked MITI for incentives to cover new equipment for hotels undergoing renovations and upgrading.

Pricing Flap Over Harry Potter

¶12. (U) Malaysia's biggest book chains (MPH, Popular, Harris, and Times) briefly launched a boycott of the new Harry Potter book to highlight how their business is threatened by two hypermarkets, Tesco and Carrefour. The two hypermarkets initially marketed "Harry Potter and the Deathly Hallows" at the discounted price of RM69.60 (approximately USD 20), far below its recommended retail price of RM109.90 (approximately USD 32). Minister of Domestic Trade and Consumer Affairs (MDTCA) Shafie Apdal defended the hypermarkets, saying such discounts benefit the public. Shafie's move was somewhat unusual in that the MDTCA is often called upon to support smaller scale Malaysian retailers; at the same time, the ministry expends considerable resources to ensure that Malaysian consumers are not overcharged for the large number of staple products subject to government price controls.

MIER Raises Its Economic Growth Forecast

¶13. (U) The Malaysian Institute of Economic Research (MIER) has revised Malaysia's economic growth upwards to 5.7% year-on-year in 2007 from 5.6% forecast a month ago. Despite the revision, the growth projection is still below the official estimate of 6%. MIER executive director Mohamed Ariff said the Malaysian economy is underperforming as it is capable of 6.5% growth. He blamed the relatively slow growth to weak domestic investment. He also commented that although FDI inflows to Malaysia have increased in 2006 after bottoming out in 2005, they are still below pre-crisis levels and lag behind Singapore and Thailand.

Call to Hasten Mergers of Malaysian Banks

¶14. (U) Nazir Razak, CEO of CIMB Group, Malaysia's second-largest banking conglomerate, announced at a conference on the banking sector that, in his view, the Central Bank should intervene to force the acceleration of mergers of domestic banks. This would make them more competitive and better able to withstand the forces of liberalization, he said. After the Asian financial crisis in 1998, the Central Bank directed the mergers of many local banks, resulting in only ten domestic banks by 2000 down from 54 banks just two years earlier. In 2006 CIMB bought Southern Bank, bringing the number to nine. Nazir said the merger process is lengthy, and it can take two to three years for the new bank to become competitive. Alternatively, he suggested that the Central Bank should raise the minimum shareholder asset level from its current RM 2 billion (USD 588 million) to RM 10 billion (USD 2.9 billion) to force out the smaller players. (Note: only two Malaysian banks currently have assets over RM 10 billion: Nazir's own CIMB Group and Maybank.)

Government To Leave It to Market Forces

15.(U) Responding to Nazir Razak's call for government intervention to force further bank mergers, Second Finance Minister Nor Mohamed Yakcop said the government has no objection to further consolidation in the banking sector. However, the minister said Malaysia is not planning to introduce new measures to speed up the process.

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